Revision of CRR by RBI

†3566. SHRI LALIT KISHORE CHATURVEDI: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the Reserve Bank of India have revised the Cash Reserve Ratio (CRR) twice in March, 2007 to check the inflation;

(b) the amount sucked from the market circulation as a result of the said revision;

(c) what is its effect on share market and the loss to the share holders as a result of it;

(d) whether it is also a fact that mostly small and medium investors suffered heavy losses among these investors; and

(e) whether it is also a fact that it is indication of overheating of economic development?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) and (b) To contain inflationary expectations and in the light of current liquidity conditions, Reserve Bank of India (RBI) decided to increase the Cash Reserve Ratio (CRR) of banks by 0.25% of their net demand and time liabilities (NDTL) effective from the fortnight beginning 3rd March, 2007 from 5.75% to 6.00%. As a result of the above increase in CRR, an amount of around Rs. 7,000 crore of resources of banks was expected to be absorbed. RBI, further on 30th March, 2007, increased the CRR of Banks by 0.50% of their NDTL in two stages effective from the fortnights beginning 14th April, 2007 and 28th April, 2007, from 6.00% to 6.25% and from 6.25% to 6.50% respectively. As a result of these increases in CRR, an additional amount of around Rs. 15,500 crore of resources of banks was expected to be absorbed.

(c) and (d) Increase in CRR has no direct proportionate positive correlation with increase/decrease in share prices, which are affected due to various factors including plan, strategy and performance of the listed companies, perception of the investors, investment by individuals/institutions/FIIs, etc.

(e) No, Sir.

†Original notice of the question was received in Hindi.